

Message Text

CONFIDENTIAL

PAGE 01 MOSCOW 11617 01 OF 02 221836Z

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ACTION IO-13

INFO OCT-01 AF-08 ARA-06 EA-07 EUR-12 NEA-10 ISO-00

CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05

PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05 EB-07 CIEP-01

TRSE-00 STR-04 OMB-01 CEA-01 SAJ-01 FRB-03 IOE-00

XMB-02 COME-00 ABF-01 /129 W
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P R 221452Z JUL 76

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC PRIORITY 6705

AMEMBASSY ALGIERS

AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY BUDAPEST

AMEMBASSY COPENHAGEN

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY OSLO

USLO PEKING

AMEMBASSY SOFIA

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY THE HAGUE

AMEMBASSY WARSAW

AMEMBASSY WELLINGTON

C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 11617

E.O. 11652: GDS

TAGS: UNDP, EAID, UR

SUBJECT: UNDP - U.S. PROPOSAL FOR PURCHASE OF CURRENCIES

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PAGE 02 MOSCOW 11617 01 OF 02 221836Z

REF: (A) STATE 177984, (B) STATE 169133, (C) GENEVA 5272,
(D) MOSCOW 10581

1. SUMMARY. INITIAL EMBASSY APPROACH TO SOVIET MINISTRY OF FOREIGN AFFAIRS REGARDING PROPOSED U.S. PLAN FOR REDUCING UNDP LIQUIDITY CRISIS ENCOUNTERED VERY NEGATIVE REACTION. SOVIET OFFICIALS ALLEGED DISCRIMINATION AGAINST COUNTRIES WITH NON-CONVERTIBLE CURRENCIES, A REDUCTION OF SOVIET PRESENCE IN UNDP AND ACTIONS WHICH WOULD VIOLATE USSR CURRENCY LAWS. EMBASSY BELIEVES THAT REAL BASES FOR SOVIET OBJECTIONS ARE LOSS OF FACE AS RESULT OF WHAT WOULD BE PUBLIC ADMISSION OF WEAKNESS OF SOVIET RUBLE AND ALSO LOSS OF HARD CURRENCY REVENUE AT TIME WHEN USSR IS HAVING SERIOUS BALANCE OF PAYMENTS PROBLEMS. EMBASSY IS MAKING FURTHER APPROACHES TO TOP OFFICIALS IN SOVIET BANKING AND PLANNING ORGANIZATIONS. END SUMMARY.

2. ON MORNING OF JULY 21 ACTING ECONOMIC COUNSELOR CALLED ON VLADIMIR A. POZHARSKIY, ACTING CHIEF OF INTERNATIONAL ECONOMIC ORGANIZATIONS DEPARTMENT OF MINISTRY OF FOREIGN AFFAIRS, AND PRESENTED U.S. PROPOSALS FOR SOLVING UNDP LIQUIDITY CRISIS AS OUTLINED IN STATE'S REFEELS. CHIEF OF INTERNATIONAL ECONOMIC ORGANIZATIONS SECTION, AMB A.Y. NESTORENKO, IS CURRENTLY IN GENEVA. POZHARSKIY, WHO HAS RANK OF MINISTER, WAS ACCOMPANIED BY F.N. KOVALEV, COUNSELOR.

3. POZHARSKIY'S FIRST COMMENT AFTER HEARING U.S. PROPOSAL WAS THAT IT WAS, OF COURSE, ESSENTIALLY THE SAME AS THAT MADE BY U.S. DELEGATION AT UNDP MEETING IN GENEVA ON JULY 1. NOW THE U.S. WAS PRESENTING IT BILATERALLY TO THE SOVIET GOVERNMENT.

4. POZHARSKIY THEN PROCEEDED TO MAKE SOME INFORMAL COMMENTS WHICH, HE IMPLIED, COULD BE REGARDED AS ESSENTIALLY THE SAME AS THE OFFICIAL SOVIET POSITION. HE NOTED THAT ALL OF THE SOCIALIST COUNTRIES AND, HE ALLEGED, A NUMBER OF DEVELOPING COUNTRIES AS WELL, HAD VOTED AGAINST THE U.S. PROPOSALS WHEN IT WAS MADE AT THE GENEVA MEETING. THE SOVIET UNION, HE SAID, CANNOT
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PAGE 03 MOSCOW 11617 01 OF 02 221836Z

AGREE TO THE U.S. PROPOSAL FOR A NUMBER OF REASONS WHICH ARE BOTH TECHNICAL AND POLITICAL. AMONG THE MOST IMPORTANT ARE THE FOLLOWING:

(A) THE U.S. PROPOSAL IS IN EFFECT A FORM OF DISCRIMINATION AGAINST THOSE COUNTRIES WHICH ARE CONTRIBUTING TO UNDP AND WHICH HAVE CURRENCIES WHICH ARE NOT FREELY CONVERTIBLE. IF SOVIET RUBLES WHICH HAVE BEEN CONTRIBUTED TO THE UNDP ARE CONVERTED INTO DOLLARS

THE SOVIET PRESENCE IN THAT ORGANIZATION, THE ACTUAL SOVIET CONTRIBUTION TO UNDP, IS NO LONGER IDENTIFIABLE. SOVIET PARTICIPATION IN THE ORGANIZATION IS THEREFORE REDUCED BY A CERTAIN PERCENTAGE.

(B) THE PROPOSED U.S. ACTION WOULD VIOLATE A NUMBER OF ESTABLISHED INTERNAL SOVIET LAWS AND REGULATIONS ON THE USE OF SOVIET CURRENCY.

(C) THE USSR, ALONG WITH OTHER COUNTRIES, EACH YEAR MAKES AVAILABLE FOR THE UNDP A CERTAIN NUMBER OF RUBLES WHICH ARE TO BE USED TO HELP THIRD-WORLD COUNTRIES IN THEIR DEVELOPMENT. THESE FUNDS ARE SPECIALLY EARMARKED FOR USE IN THIRD-WORLD COUNTRIES AND THEY SHOULD NOT AND CANNOT BE USED FOR OTHER PURPOSES.

5. COMMENTING FURTHER, POZHARSKIY STRESSED THAT THIS IS VERY MUCH A POLITICAL QUESTION. THE USSR HAS EXCELLENT RELATIONS WITH MANY DEVELOPING COUNTRIES. MANY OF THEM USE LARGE AMOUNTS OF RUBLE AID AND, HE SAID, IT WOULD BE STRANGE IF RUBLE AID WERE NOT ALSO USABLE WITHIN THE FRAMEWORK OF THE UNDP. AS FOR THE TECHNICAL AND LEGAL ISSUES, THEY ARE VERY SERIOUS. SOVIET INTERNAL LAW WOULD HAVE TO BE CHANGED IF THE U.S. PROPOSALS WERE TO BE ADOPTED.

6. PER PARA FIVE, REF A, ACTING ECONOMIC COUNSELOR NOTED THAT U.S. PROPOSAL IS WORLDWIDE IN SCOPE AND IS NOT MERELY AIMED AT THE USSR. HE ALSO NOTED THAT ONE COUNTRY IS ALREADY FAVORABLE AND EMPHASIZED EASE OF PROPOSED ARRANGEMENT FOR TRANSFER OF RUBLE CREDITS NOW IN UNDP BANK FOR FOREIGN TRADE ACCOUNT IN MOSCOW TO A US ACCOUNT IN THE SAME BANK, AFTER WHICH UNDP IN NEW YORK WOULD RECEIVE DOLLARS. HE ALSO NOTED US INTEREST IN RESTORING UNDP PRACTICE OF PAYING 25 PERCENT OF SALARIES OF UNDP EXPERTS IN HOME COUNTRY CURRENCY. ACCORDING TO POZHARSKIY AND KOVALEV, HOWEVER, RECENT CHANGE IN UNDP REGULATIONS DID
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 MOSCOW 11617 01 OF 02 221836Z

NOT AFFECT SOVIET EXPERTS WHO STILL RECEIVE 25 PERCENT OF THEIR SALARIES IN RUBLES.

7. MEETING ENDED WITH POZHARSKIY GIVING ASSURANCES OF FORMAL SOVIET RESPONSE WITHIN NOT TOO DISTANT FUTURE BUT HOLDING OUT NO HOPE THAT SOVIET POSITION WILL CHANGE. ACTING ECONOMIC COUNSELOR NOTED EMBASSY PLANS TO EXPLAIN US PROPOSALS TO SENIOR OFFICIALS IN USSR BANK FOR FOREIGN TRADE AND GOSPLAN. POZHARSKIY SAID THAT MAIN VALUE OF SUCH APPROACHES WILL MERELY BE MORE EXPERT BRIEFING THAN HE IS ABLE TO GIVE ON LEGAL AND TECHNICAL REASONS WHICH MAKE US PLAN UNACCEPTABLE TO THE SOVIET UNION.

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PAGE 01 MOSCOW 11617 02 OF 02 221842Z

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TO SECSTATE WASHDC PRIORITY 6706

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C O N F I D E N T I A L SECTION 2 OF 2 MOSCOW 11617

8. COMMENT. IN EMBASSY'S VIEW, POZHARSKIY FAILED TO
SPECIFY THE TWO DOMINANT REASONS FOR SOVIET OPPOSITION TO US
PLAN. THEY ARE:

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PAGE 02 MOSCOW 11617 02 OF 02 221842Z

A. LOSS OF FACE. POZHARSKIY MADE SOME ALLUSIONS TO THIS FACTOR WHEN HE MENTIONED "REDUCTION OF SOVIET PRESENCE IN THE UNDP." THE MERE FACT THAT THE GLUT OF RUBLES THE UNDP IS NOW HOLDING CANNOT BE USED TO BUY GOODS OR PAY FOR SERVICES IN OTHER COUNTRIES, AND THAT MANY OF THE GOODS AND SERVICES AVAILABLE FROM THE USSR ARE SO SUB-STANDARD THAT THEY ARE NON-COMPETITIVE AND THEREFORE NOT WANTED, IS POLITICALLY EMBARRASSING FOR THE SOVIETS, ALTHOUGH THEY CAN LOOK THE OTHER WAY AND ALLEGE THAT UNDP OFFICIALS ARE NOT REALLY TRYING. BUT AGREEMENT TO CONVERT THIS MOUNTING PILE OF SOVIET CURRENCY INTO US DOLLARS IS SOMETHING ELSE AGAIN. IN ESSENCE IT IS AN OPEN, PUBLIC ADMISSION OF THE FEEBLE, LIMITED STRENGTH OF THE CURRENCY OF "THE OTHER SUPERPOWER" ON WORLD MARKETS.

B. LOSS OF HARD CURRENCY. AT A TIME WHEN THE USSR IS RUNNING A HARD CURRENCY TRADE DEFICIT IN THE NEIGHBORHOOD OF FIVE BILLION DOLLARS PER YEAR, THE WORLD PRICE OF GOLD IS FALLING AND SOVIET EURODOLLAR BORROWING IN WESTERN MARKETS IS REACHING EMBARRASSINGLY HIGH LEVELS, BARREL-SCRAPING FOR EVERY POSSIBLE SOURCE OF CONVERTIBLE CURRENCY - NO MATTER HOW NEGLIGIBLE - IS THE ORDER OF THE DAY IN THE SOVIET GOVERNMENT. DOLLARS PAID TO UNDP FOR RUBLES TO MEET US EXPENSES IN THE USSR DO NOT HELP THE SOVIET BALANCE OF PAYMENTS. DOLLARS PAID DIRECTLY TO THE FOREIGN TRADE BANK IN EXCHANGE FOR RUBLES DO HELP IT. ALTHOUGH THE AMOUNT INVOLVED IS NOT LARGE, WE BELIEVE THAT THE CURRENT PRESSURES WHICH THE SOVIETS ARE NOW UNDERGOING IN THE FINANCIAL AREA MAKE THIS AN IMPORTANT FACTOR.

9. WE SHALL CONTINUE OUR EFFORTS TO EXPLAIN DEPARTMENT'S PROPOSAL TO OTHER SOVIET OFFICIALS AND APPOINTMENTS HAVE BEEN REQUESTED FOR MEETINGS WITH THE CHAIRMAN OF THE USSR BANK FOR FOREIGN TRADE AND WITH THE DEPUTY CHAIRMAN OF THE STATE PLANNING COMMISSION (GOSPLAN). WE ARE UNDER NO ILLUSIONS THAT OUR APPROACHES CAN IN THEMSELVES CAUSE THE SOVIETS TO CHANGE THEIR POSITION ON THIS ISSUE. HOWEVER, WE BELIEVE THAT AT MINIMUM WE MAY BE ABLE TO MAKE THE SOVIETS UNDERSTAND HOW OUR PROPOSAL WOULD WORK AND THE FACT THAT IT IS NOT DISCRIMINATORY. WE ALSO BELIEVE THAT IF SUFFICIENT LDC SUPPORT COULD BE MOBILIZED FOR US PROPOSAL SOVIETS MIGHT EVENTUALLY MAKE SOME CONCESSION IN THE FORM OF A LIMITED INCREASE IN CONVERTIBILITY OF UNDP RUBLE HOLDINGS. MATLOCK
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PAGE 03 MOSCOW 11617 02 OF 02 221842Z

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